

World Scenario

In the developed world, insurance broking came into existence about twelve decades back. From being a matchmaker between insurance companies and business firms earlier, the scope of the broker has expanded to providing various value-added services.

Apart from structuring and placement of insurance cover, these include claims management, risk management, alternative risk transfer mechanisms, employee-benefit solutions, captive management, actuarial services, HR outsourcing, political and environment risk advice, pre-emergency planning and evacuation, business continuity planning etc.

The Broking concept is so well established in the Western markets that close to 80-90% of all corporate/ commercial insurance business is transacted through Brokers and not directly between Insurers and Clients.

Indian Scenario

India has been a rather late starter. The IRDA brought out its first set of regulations, permitting Brokers to operate, as recently as October 2002. The first set of Licenses was issued only in Jan 2003 (India Insure being the first to have been granted the License).

In India, Brokers are different from other Insurance service providers in several ways.

- ❑ Unlike an Agent (or a corporate agent), who represents a specific Insurer only,
- ❑ A Broker REPRESENTS THE CLIENT, and not the insurer.
- ❑ He can approach all Insurers for a competitive quote.
- ❑ A Bancassurance outfit (commercial banks), is normally an Agent and not a broker.
- ❑ A Third Party Administrator (TPA; sometimes confused with a Broker) is a service provider for Insurance companies, providing services related to health insurance only.

IRDA has permitted 3 types of Brokers to operate in India:

- ❑ The Direct Broker (between end-users and primary insurers only),
- ❑ Re-insurance Brokers (between primary insurers and re-insurers only) and
- ❑ He can approach all Insurers for a competitive quote.
- ❑ Composite Brokers (both the above).

Brokers are highly regulated. Apart from a minimum paid-up capital of Rs 50 Lacs – Rs 250 Lacs (based on the type of License), Brokers need to have fully trained staff and proper infrastructure.

IRDA has licensed more than **250 brokers** over the last few years. While most are regional players with either a local or regional presence only, there are some who have a national footprint.

Why do you need Insurance Brokers?

- ▣ Brokers represent the client, not the insurer
- ▣ Brokers have expertise, knowledge of market and negotiating skills
- ▣ Brokers are accountable to clients for professional negligence
- ▣ Brokers are technically competent to evaluate insurance companies on the basis of coverage, services and price and thus ensure healthy competition
- ▣ Brokers are more aware of national and international markets
- ▣ Broker's domain knowledge is useful to study the survey reports, determine / question lapses
- ▣ Brokers assist in speedy and fair settlement of claims
- ▣ Brokers are the most stable insurance distribution channel
- ▣ Brokers normally have higher bargaining power – leading to significant Cost Savings for clients
- ▣ Brokers are able to get a better deal in hard markets.
- ▣ Brokers can structure specialized insurance programs – policy limits, minimizing deductibles and optimizing coverage terms
- ▣ Brokers help you get the best terms and service from your insurer – shifting from your existing insurer is not necessary.
- ▣ Brokers help you evaluate the 'terms' and 'service' you are enjoying today vis-à-vis the 'best' available in today's competitive market – take advantage of competition.
- ▣ Brokers help you see all the faces of a cube and choose the best for yourself - even the 'best' insurer can present only 1 face of the cube – his own.
- ▣ Brokers provide several Other Services like Policy Audit, improvement in coverages, expert handling of claims, day-to-day policy administration, etc.,
- ▣ Outsourcing to professionals frees up mind space and makes the in-house team available for other more productive activities